

Borealis Exploration Limited

#800 630 8TH AVENUE SOUTH WEST
CALGARY, ALBERTA, T2P 1G6 CANADA
403-233-2218 / 503-621-3266

ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 1984

BOARD OF DIRECTORS

John W. Abernethy, P.Eng
Henry M. Beaumont, Q.C.
Chana B. Cox, Ph.D.
Rodney T. Cox, Ph.D.
Peter B. Fransham, Ph.D.
Cameron O. Smith, M.S.
John M. Taylor, P.Eng.

OFFICERS

Rodney T. Cox, Chief Executive Officer/Managing Director
David M. Goldenberg, Secretary
Chana B. Cox, Director Planning
Peter B. Fransham, Director Field Operations

COUNSEL

David M. Goldenberg LL.B.
Beaumont Proctor
Calgary, Alberta

AUDITORS

Collins Barrow
Calgary, Alberta

STOCK EXCHANGE LISTING

Alberta Stock Exchange
Symbol: BSX

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
411 8th Avenue S.W.
Calgary, Alberta

INCORPORATED

Dominion Charter: August 26, 1968
Dominion Continuance: September 10, 1979

Borealis Exploration Limited

#800 630 8TH AVENUE SOUTH WEST
CALGARY, ALBERTA, T2P 1G6 CANADA
403-233-2218 OR 503-621-3286

May 22, 1984

Dear Fellow Shareholders:

This summer Borealis intends to mount a helicopter supported exploration programme to follow up on known gold and other precious and base metal prospects on its 1.12 million acres on Melville Peninsula. The Company has proven up its magnetite deposits and is continuing development work in the Roche Bay area. Work will continue on the magnetite project, but until the iron and steel industry has recovered from its recent recession the pace will be slower than we had earlier anticipated. Instead Borealis will be devoting much of its efforts to proving up deposits of other minerals.

A private placement of flow-through shares will finance the summer programme. The holder of a flow-through share should earn a deduction of 133% against Canadian source income on that portion of the share price which will be spent on exploration and development. The Company has undertaken to use its best efforts to spend 95% of the proceeds on exploration and development.

Borealis is endeavoring to sell 135,000 units. Each unit will sell for \$18 per share and consist of one share and a warrant. The warrant can be exercised by March 1, 1985 to purchase an additional share at \$30. On exercise of the warrant, the warrant holder will earn a second warrant which can be exercised by March 1, 1986 to purchase an additional share at \$40.

This is not a public offering. Under the laws governing private placements of shares, the Company will distribute the private placement memorandum to no more than 75 potential investors, of whom no more than fifty investors may participate. The offering will close on or before June 30, 1984.

The private placement should provide Borealis with increased Canadian equity participation and with sufficient funds for three years of exploration and development without increasing the Company's indebtedness.

In other news, the Company has chosen to disassociate itself from the Montreal Stock Exchange. Our shares now trade on the Alberta Stock Exchange. Quotes are available on all major North American quotation machines. For example, on Quotron Borealis is: BSX.CA.

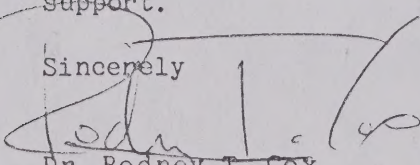
Norman H. Ursel is no longer on the Board of Directors although he remains active in corporate funding. We will miss his presence on the Board.

John M. Taylor has joined our Board of Directors. Mr. Taylor is Chairman of the Board of Panarctic Oils Ltd. and he was President of PanCanadian Petroleum Ltd., a Canadian Pacific subsidiary. He is currently President of United Canso Oil & Gas Ltd. Mr. Taylor brings to our Board years of experience in resource exploration and development in the Canadian Arctic.

We continue in almost constant negotiations with major domestic and foreign resource companies. A great deal of interest is being shown in our gold exploration, and we are confident that we can come to an agreement in the near future. Note the enclosed literature on the 1984 exploration programme.

We will continue to keep you informed. Thank you for your continued support.

Sincerely



Dr. Rodney T. Cox

Chief Executive Officer/
Managing Director

**BOREALIS EXPLORATION LIMITED
PRECIOUS/BASE METAL PROGRAMME**

SUMMARY

Borealis Exploration Limited intends to mount a helicopter supported exploration programme to follow up on known gold and other precious and base metal prospects on its extensive holdings on Melville Peninsula.

Borealis holds 1.12 million acres in mineral leases, claims, and permits on Melville Peninsula. This acreage encompasses the Prince Albert Group, one of the few Archean greenstone belts in the world still unexplored. Virtually all of the gold production in eastern and northern Canada is hosted in this type of environment. Gold enrichment has already been discovered within gossans and iron formations of the Prince Albert Group, and preliminary indications are that the Prince Albert Group may host base metal as well as precious metal deposits.

The Prince Albert Group has many features in common with other major Archean greenstone gold-producing areas of the world, such as the Superior Province of Canada, Southwestern Australia, and Southern Africa. These features include age, structural setting, and tectonic history, as well as rock types and geochemical character.

Borealis plans this year to initiate precious metals exploration of their property with a field staff of eight geologists and prospectors. This represents the first systematic precious metals exploration programme to be carried out in what is effectively virgin territory.

PREVIOUS WORK

Three mapping projects completed in the area by the Geological Survey of Canada, during 1964, 1972-74, and 1974-77 have been published to date. Although all the GSC work covered large areas on a reconnaissance basis, the presence of numerous gossans, rusty zones, and mineral occurrences was noted, nearly all of which are located within the greenstone belts. During 1977, the Geological Survey of Canada conducted a lake-sediment and lake-water geochemical reconnaissance survey that included the southern portion of the Borealis property holdings. Several areas that are significantly anomalous in silver and arsenic, important gold pathfinders, correspond to greenstone belt exposures within the area of the Borealis mineral exploration permits.

Borealis conducted exploration programmes in the area in 1968, 1969, 1970, and 1979-1983, which were primarily directed at exploring and delineating extensive deposits of banded magnetite iron ore. This objective has been met, and Borealis has now proved up 20 years of open cast iron magnetite ore reserves. These reserves lie about 12 km from the proposed docking facility. Analysis and processing work has determined that the magnetite can be easily concentrated to over 71% Fe. Feasibility and environmental studies have been completed.

A critically important feature of the iron formation is that it is itself a significant gold anomaly, and that there are significant gold anomalies related to geological structural features within the iron deposits. When the tailings, after magnetic separation of the magnetite, were systematically assayed for gold, gold was detected in 43% of the samples with values ranging from trace to 0.17 oz/ton. Tailings material was concentrated by means of a sulphide float to up to 0.5 oz/ton recoverable gold and 288 grams/tonne (9 oz/ton) recoverable silver. Therefore, the potential for economic precious metal deposits within the extensive iron formation of the belt is significant.

There is also an excellent potential for precious and base metal deposits contained within rocks other than the iron formation. During the course of the exploration programmes, Borealis geologists examined and sampled over 50 gossan zones. Best analyses returned from one zone were 372 g/tonne silver (11.6 oz/ton), 13.5% zinc, 8.1% lead, and 0.13% copper. Another zone yielded .38% copper, 6.4 grams/tonne (2 oz/ton) silver, and 1.3 grams/tonne (.04 oz/ton) gold.

During 1978, Noranda Exploration, and AGIP Canada Limited briefly explored a limited part of the western greenstone belt for uranium. A molybdenum showing was examined that graded 11.5% Mo in a grab sample. It was also reliably reported that a grab sample from a gossan (now held by Borealis) contains 8 grams/tonne (0.25 oz/ton) gold.

This direct evidence of precious metal concentrations in the Prince Albert Group is particularly compelling when considered together with other geological features of the group.

FAVOURABLE FEATURES

A number of important geological features of the Prince Albert Group underline its favourability as a gold deposit host:

- (1) the predominance of mafic over felsic volcanic rocks,
- (2) the presence of ultramafic intrusive and extrusive rocks,
- (3) indications of gold enrichment in gossans and in iron formation,
- (4) the presence of extensive chemical sedimentary rocks in the form of banded iron formation,
- (5) alteration of ultramafics in the form of carbonatization,
- (6) volcanic-sedimentary deposition with in an environment interpreted as a shallow water continental margin setting,
- (7) the presence in lake sediments of anomalous silver and arsenic metal concentrations as indicated by geochemical samples.

Definite chemical similarity has been documented by the Geological Survey of Canada between the volcanic rocks of the Prince Albert Belt and the following greenstone belts:

- (1) the Timmins-Matheson, Ontario area, still a major gold producer after 70 years of continuous production,
- (2) the Eastern Goldfields Province, the major producer of gold, silver, and nickel in Western Australia,
- (3) Zimbabwe, Africa, where a significant portion of the country's gold production comes from an Archean banded iron formation.

BOREALIS EXPLORATION 1984 PROGRAMME

Borealis intends to mount a helicopter-supported geological exploration programme to locate precious and base metal deposits on its holdings on Melville Peninsula. This programme will include mapping, prospecting, and sampling of known favourable locations within the eastern and western greenstone belts.

One exploration advantage of the arctic environment is the extensive rock exposure. The exposure on Melville Peninsula is from 70% in the east to 90% in the west. This means that a geologically interesting zone can be identified from the air and more readily mapped and sampled on the ground, making geological interpretation simpler and more accurate.

Six geologists and two prospectors will investigate the following:

- (1) areas of known precious and base metal values,
- (2) areas in which gold pathfinder geochemical indicators have been located, these include areas of high silver and arsenic lake sediment samples,
- (3) occurrences of favourable volcanic rock units including ultramafic basaltic and felsic rock accumulations,
- (4) areas of volcanic-sedimentary contact,
- (5) favourable structural situations.

In addition, a detailed helicopter-supported lake sediment sampling programme will be carried out to delineate areas of metal enrichment.

Geochemical samples will be flown to Calgary in conjunction with the weekly supply flights. Thus, results of chemical analysis should be obtained in a timely manner and follow up exploration can be directed accordingly.

If time and the resources of the company permit further work, a limited amount of drilling may be undertaken to investigate at depth mineralized zones defined by the summer programme.

CONCLUSIONS

The Borealis Exploration 1984 geological exploration programme should provide a good evaluation of the Prince Albert Group on Melville Peninsula. The Prince Albert Group is one of the few remaining unexplored Archean greenstone belts. Significant gold values in the iron formation, as well as in other areas, taken together with the geological evidence, strongly suggest that the prospects for finding profitable precious and base metal deposits are excellent.

BOREALIS EXPLORATION LIMITED
INFORMATION CIRCULAR

1. SOLICITATION OF PROXIES:

This information circular is furnished in connection with the solicitation of proxies by the Management of Borealis Exploration Limited ("Company") for use at its Annual Meeting of Shareholders to be held June 26, 1984 for the purposes set forth in the accompanying Notice of Meeting. It is expected that the solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by the Officers of the Company. The cost of solicitation will be borne by the Company.

The information contained here is given as of April 30, 1984, and unless otherwise indicated, all dollar figures set forth are expressed in Canadian dollars.

2. QUORUM AND VOTING:

The capital of the Company consists solely of common shares without par value of which 2,229,435 shares were outstanding at the close of business on March 31, 1984.

Each holder of a common share of record at the date of the meeting is entitled to attend the meeting and to one vote for each share. Any resolution to be voted upon at the meeting must be approved (a) by a majority of the votes cast, unless the Canada Business Corporations Act stipulates a number or proportion of the votes cast in excess of a majority in which case, by such stipulated majority or proportion; and (b) by a majority of holders of common shares present in person or by proxy.

Where common shares are beneficially owned (a) by one person but registered in the names of several person (b) by a group of persons not dealing at arm's length with each other; or (c) by a group of persons acting in concert by virtue of any contract, agreement, or other understanding, then in such case, only one person may be counted as being present in person or by proxy with respect to such shares. Borealis will determine whether shareholders were acting in concert, depending on the circumstances and evidence, if any, that shareholders were in fact so doing and should therefore be treated as one stockholder.

3. REVOCATION OF PROXIES*

Each shareholder has the power to revoke a proxy at any time insofar as it has not been exercised. In addition to revocation in any other matter permitted by law, a shareholder giving a proxy pursuant to this solicitation may revoke the proxy instrument in writing executed by the shareholder or his attorney authorized in writing, or, if the shareholder is a Corporation, under its Corporate seal or by an Officer or attorney thereof duly authorized, and deposit it either at the Head Office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

4. PRINCIPAL HOLDERS OF VOTING SHARES:

To the knowledge of the Directors and Officers of the Company, the only persons who beneficially own or exercise control or direction over shares carrying more than ten percent of the votes attached to shares of the Company are as follows:

Name	Number of Shares Beneficially Owned	% of Outstanding Shares
The Catawba Corporation	727,533	32.6%
Moncal & Co. (In Process of being cancelled)	475,000	21.3%
The Parmenides Group	327,438	14.7%

Note: Moncal & Co. shares are held in escrow, and are being cancelled.

5. ELECTION OF DIRECTORS:

Present Directors and their terms of office are as follows:

Name	Number of Years
John W. Abernethy	6
Cameron O. Smith	5
Rodney T. Cox	4
Chana B. Cox	3
Henry M. Beaumont	2
Peter B. Fransham	1
John M. Taylor	Up for Election

The enclosed instrument of proxy will be voted for the following proposed nominee (or for a substitute nominee in the event of contingencies not known at present) who will serve for a period of 7 years or until his successor is elected or appointed in accordance with the by-laws of the Company, or as long as is allowed under the Canada Business Corporations Act.

John M. Taylor became a Director of the Company March 21, 1984. He is a Director of United Canso Oil & Gas Ltd. since March 8, 1983 and President since May 12, 1983. Chairman and Director, since 1967 of Panarctic Oils Ltd. and since 1981 of Imperial Continental Gas Ltd.; since 1981 Director Canadian Liquid Air Ltd., October 1969 to May 1980 President PanCanadian Petroleum Ltd. and its predecessor corporations; 1976-1977, President, Independent Petroleum Association of Canada. John M. Taylor owns directly or indirectly 1 common share of Borealis Exploration Limited.

THE PRESENT POSITION AND OFFICE WITH THE COMPANY IF APPLICABLE, AND THE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT OF THE INCUMBENT DIRECTORS AND OFFICERS ARE AS FOLLOWS. UNLESS OTHERWISE STATED, SUCH OCCUPATION OR EMPLOYMENT HAS CONTINUED FOR MORE THAN THE LAST FIVE YEARS.

John W. Abernethy became a Director of the Company October 20, 1983. He is President of J.W. Abernethy Management & Consulting Ltd. Previously with Loram International Ltd. from 1970 to 1984 and Manager Mining Division from 1981 to 1984. John W. Abernethy owns directly or indirectly 1,000 common shares of Borealis Exploration Limited.

Henry M. Beaumont became a Director of the Company September 10, 1979. Henry M. Beaumont is Senior Partner in the law firm of Beaumont Proctor, Calgary, Alberta. He has been a director of many private companies. Henry M. Beaumont owns directly or indirectly 1750 common shares of the Company.

Chana B. Cox has been Director of Planning of the Company since July 2, 1980, and became a Director May 18, 1982. She is also a Director and Secretary of Thales Resources, Inc., and is a partner in The Parmenides Group. Chana B. Cox beneficially owns directly or indirectly 105,058 common shares of the Company.

Rodney T. Cox has been Chief Executive Officer/Managing Director of the Company since December 27, 1978, at which time he also became a Director. He is a Director of Thales Resources, Inc., and is a partner in The Parmenides Group. Rodney T. Cox beneficially owns directly or indirectly 97,367 common shares of the Company.

Peter B. Fransham has been a Director and Director of Field Operations of the Company since January 1, 1983. 1981-1983 Mr. Fransham was with Hardy Associates where he was a Senior Engineering Geologist. 1978-1981 he was Assistant Professor University of Waterloo, while 1975-1978 he was with the Geological Survey of Canada. He owns directly and indirectly 2,200 common shares of Borealis Exploration Limited.

Cameron O. Smith became a Director of the Company December 19, 1978. He is an employee of the Catawba Corporation of which he became a Director in July 1977. In July 1978 Cameron O. Smith became Vice President and a President of Taconic Petroleum Corporation. Cameron O. Smith owns directly or indirectly 9,405 common shares of the Company.

6. REMUNERATION OF MANAGEMENT:

During Fiscal 1984, 598 shares and \$156,000 in cash with a value of \$167,960 was paid to management as independent consultants for services rendered.

In addition, the Directors received \$10.00 for each Director's meeting attended. There is no reimbursement to Directors for expenses related to attending Directors' meetings.

7. APPOINTMENT OF AUDITORS:

Unless otherwise specified therein, it is intended to vote the accompanying proxy instrument to appoint Collins Barrow, the present auditors of the Company, as auditors of the Company, to hold office until the next annual meeting of shareholders, and to authorize the Directors to fix their remuneration.

8. DIRECTORS AND OFFICERS INSURANCE:

The Company does not have any insurance in effect for the benefit of the Company and its Directors and Officers in respect of the performance by them of the duties of their office.

9. INTEREST OF LARGE SHAREHOLDERS IN MATERIAL TRANSACTION WITH BOREALIS EXPLORATION LIMITED.:

The Parmenides Group has assumed certain of the operating costs of the Company, has lent funds at cost to the Company, and has guaranteed without remuneration Company obligations. Borealis Exploration Limited has agreed to issue to The Parmenides Group a 3 year floating debenture for a first charge on the Company's properties. The debenture is convertible and bears interest at 15% per annum. The total amount of the debenture as of May 2, 1984 was \$2,531,231.68 (of which \$2,243,496.00 is an audited amount as of March 31, 1984, the balance is unaudited advances to May 2, 1984). The Company has agreed to issue a second debenture for no more than \$750,000 to cover operating expenses to June 30, 1984, and some shortfall in the summer programme. To the date of this prospectus, \$54,225.91 has been advanced under the second debenture. During fiscal 1984 interest charges of \$216,840 were accrued to the account of The Parmenides Group and have been included in the amount of the outstanding debenture.

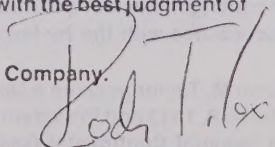
10. The Board of Directors, of Borealis Exploration Limited, has approved a resolution to request that its shares be delisted from the Montreal Stock Exchange. From time to time the Montreal Stock Exchange has issued suspension of trading orders against Borealis Exploration Limited. Since trading began in 1970, there have been no findings of malfeasance by the Montreal Stock Exchange or any Securities Commission in Canada. It is apparent from this history of suspensions, however, that there is a strained relationship between the Company and the exchange. In the opinion of the Board of Directors this pattern of suspensions has not only been harmful to the Company's shareholders, it has been harmful to the Company's efforts to fund and develop its Melville Peninsula properties. The Company will continue to be listed on the Alberta Stock Exchange. The Alberta Stock Exchange quotes on Borealis are available on the major North American services.

11. GENERAL:

The Management knows of no matters to come before the Annual Meeting other than the matters referred to in the Notice of the Meeting. If any matters which are not now known to the Management should properly come before the meeting, the accompanying proxy instrument will be voted on such matters in accordance with the best judgment of the person or persons voting it.

The contents in sending of this information have been approved by the Directors of the Company.

Dated this Twenty Second day of May, 1984.


Rodney T. Cox
Chief Executive Officer/Managing Director
Borealis Exploration Limited

COLLINS BARROW

CHARTERED ACCOUNTANTS

445, CLEVELAND, CALGARY, EDMONTON, WINNIPEG
5, LEBLANC, TORONTO, OTTAWA, MONTREAL
QUEBEC CITY, HALIFAX, MONCTON
AND OTHER CITIES IN CANADA

REPRESENTATIVES IN PRINCIPAL
AREAS OF THE WORLD

TELEPHONE (403) 263-8075
800 GULF CANADA SQUARE
401-9TH AVENUE S.W.

CALGARY, CANADA T2P 3C5

AUDITORS' REPORT

To the Shareholders
Borealis Exploration Limited

We have examined the consolidated balance sheet of Borealis Exploration Limited as at March 31, 1984 and the consolidated statements of exploratory and development and general and administrative expenses deferred, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards in Canada, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1984 and the changes in its exploratory and development and general and administrative expenses deferred and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

Calgary, Canada
May 2, 1984

Collins Barrow
CHARTERED ACCOUNTANTS

BOREALIS EXPLORATION LIMITED (Incorporated under the laws of Canada) CONSOLIDATED BALANCE SHEET

MARCH 31, 1984

	1984	1983
ASSETS		
Mining claims and exploratory permits	\$ 15,310	\$ 15,310
Exploratory and development and general and administrative expenses deferred	5,250,288	3,473,519
	\$ 5,265,598	\$ 3,488,829
LIABILITIES		
Current liabilities		
Bank indebtedness (note 2)	\$ 223,285	\$ 266,722
Accounts payable and accrued liabilities	361,117	144,364
Finance contract payable (note 3)	2,250	-
	586,652	411,086
Note payable (note 4)	2,243,496	719,404
Agreement payable (note 5)	193,908	-
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	2,441,823	2,579,649
Deficit	(200,281)	(221,310)
	2,241,542	2,358,339
Contingent liabilities (note 9)	\$ 5,265,598	\$ 3,488,829

Approved on behalf of the Board,
[Signature], Director
[Signature], Director

BOREALIS EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF EXPLORATORY AND DEVELOPMENT AND

GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED

YEAR ENDED MARCH 31, 1984

	Balance March 31, 1983	Additions	Balance March 31, 1984
Exploratory and development expenses Melville Peninsula, District of Franklin			
Geological fees and expenses	\$ 355,522	\$ 6,879	\$ 362,401
Assays	40,181	182,106	182,287
Direct administration	414,277	15,834	430,111
Engineering study	186,389	(12,006)	174,383
Transportation study	11,862	-	11,862
Northern Mineral Exploration Assistance Program	(9,036)	-	(9,036)
Salaries and benefits	66,427	125,480	191,907
Drilling	565,001	-	565,001
Contractors fees	21,022	-	21,022
Transportation and travel	358,787	155,402	514,189
Camp and accommodation	28,163	57,364	85,527
Equipment rental	18,894	20,500	39,394
Consultants fees and expenses	508,179	529,028	1,037,207
Fuel, materials and supplies	81,052	45,590	126,642
Miscellaneous	10,540	15,674	26,214
Trenching	50,006	-	50,006
Surveying	14,018	10,000	24,018
Aircraft expenses	-	11,844	11,844
	<u>2,721,284</u>	<u>1,123,695</u>	<u>3,844,979</u>
Aircraft, geological and sundry equipment, less accumulated depreciation	27,264	67,650	94,914
Total exploratory expenses	<u>2,748,548</u>	<u>1,191,345</u>	<u>3,939,893</u>

General and administrative expenses Financial, technical and other services under contract	95,246	-	95,246
Salaries and office services	56,768	-	56,768
Interest and exchange	463,538	358,275	821,813
Legal and accounting	122,567	27,071	149,638
Specialized services	69,272	-	69,272
Shareholders' expenses	80,807	26,782	107,589
Depreciation	28,087	25,074	53,161
Professional fees and services	358,150	46,595	358,150
Office, travel and miscellaneous	151,906	111,000	199,501
Guarantee fees	-	111,000	111,000
Interest income and miscellaneous	(41,809)	(9,373)	(51,182)
	<u>1,384,532</u>	<u>585,424</u>	<u>1,969,956</u>
Less: Amounts recovered from partners	<u>111,325</u>	<u>-</u>	<u>111,325</u>
	<u>1,273,207</u>	<u>585,424</u>	<u>1,858,631</u>
Less: Portion of general and administrative expenses considered allocable to interests abandoned or sold	<u>548,236</u>	<u>-</u>	<u>548,236</u>
Total general and administrative expenses	<u>\$ 3,473,519</u>	<u>\$ 1,776,769</u>	<u>\$ 5,250,288</u>

BOREALIS EXPLORATION LIMITED
CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED MARCH 31, 1984

	1984	1983
Deficit, beginning of year	\$ 221,310	\$ 221,179
Add: Write-off of miscellaneous equipment	-	131
Less: Excess of stated capital over consideration paid for redeemed shares	(21,029)	-
Deficit, end of year	<u>\$ 200,281</u>	<u>\$ 221,310</u>

BOREALIS EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1984

	1984	1983
Working capital was provided by		
Issue of common shares	\$ 38,210	\$ 6,400,471
Agreement payable	193,908	-
Note payable	<u>1,524,092</u>	<u>719,404</u>
	<u>1,756,210</u>	<u>7,119,875</u>
Working capital was used for		
Exploratory and development and general and administrative expenses deferred	1,801,843	2,209,968
Deduct: Depreciation	<u>25,074</u>	<u>9,710</u>
	<u>1,776,769</u>	<u>2,209,258</u>
Cancellation of shares	155,007	5,000,000
Reduction in obligation to issue shares	-	109,000
Write-off of miscellaneous equipment	-	<u>241,451</u>
	<u>1,931,776</u>	<u>7,550,840</u>
Decrease in working capital	(175,566)	(430,965)
Working capital (deficiency), beginning of year	<u>(411,086)</u>	<u>19,879</u>
Working capital (deficiency), end of year	<u>\$ (586,652)</u>	<u>\$ (411,086)</u>

BOREALIS EXPLORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1984

1. Summary of significant accounting policies

The consolidated financial statements of the company are stated in Canadian dollars and have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in light of information available up to May 2, 1984. Significant accounting policies are summarized below:

(a) Mining operations

The properties in which the company has interests are in the development stage and accordingly, company all expenditures (less revenues and amounts recovered from partners and others) have been capitalized or deferred, except that costs and expenses applicable, or considered allocable to areas abandoned and other losses have been charged to deficit. Gains or losses on disposal of mining claims or leases are ordinarily credited or charged to the deficit account.

The ultimate recovery of the costs of the mining leases and the exploratory and development and general and administrative expenses deferred is dependent upon the company's ability to obtain adequate financing in order to complete the development of the property, and upon future commercial and profitable production.

No provision for amortization of the amount carried for mining leases or for exploratory and development and general and administrative expenses deferred is included in the accompanying financial statements.

Depreciation has been provided for on aircraft, geophysical and sundry equipment using the declining balance method at rates varying from 20% to 30% per annum.

(b) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiary, Borealis Exploration Incorporated.

2. Bank indebtedness

The bank indebtedness is comprised of the following:

	1984	1983
Bank overdraft	\$ 23,285	\$ 44,620
Demand bank loan, bearing interest at the prime lending rate plus 1%	200,000	-
Bank loan, bearing interest at 15% per annum due March 21, 1984,	-	222,102
	<u>\$ 223,285</u>	<u>\$ 266,722</u>

The bank loans are personally guaranteed by one of the company's major shareholders.

3. Finance contract payable

The finance contract payable is secured by the automobile purchased and is repayable at \$223 per month including interest. The contract is due on June 1, 1985.

4. Note payable

The note payable arises from cash advances made by a major shareholder of the company. The note payable has no stated terms of repayment and bears interest at cost to the shareholder. The shareholder has indicated that no repayment will be required in the next fiscal year. The company has granted the shareholder an option to purchase shares as repayment for the indebtedness, in whole or in part [see note 6(d)]. During the year, interest charges on the note payable aggregated \$216,840. These interest charges have been compounded and are included in the principal balance outstanding at March 31, 1984.

5. Agreement payable

The agreement payable is in connection with services provided by an engineering company. An agreement has been reached whereby payment will be deferred until the company obtains funding for the company's mining project. The agreement bears interest at the rate of 18% per annum. The accrued interest due has been added to the balance of the agreement payable.

6. Capital stock

(a) Authorized capital stock of the company consists of an unlimited number of common shares without par value.

(b) Issued capital stock of the company consists of the following:

	Number of Shares	Stated Value
Balance, March 31, 1983	2,252,494	\$ 2,579,649
Issued in exchange for services	2,046	38,210
Less: Shares cancelled on reamputation of agreement payable	(5,905)	(155,007)
Shares redeemed and cancelled by the company	(19,200)	(21,029)
Balance, March 31, 1984	<u>2,229,435</u>	<u>\$ 2,441,823</u>

(c) Pursuant to an agreement and amendment thereto and Board of Directors resolution dated October 25, 1983, the company and a shareholder have agreed to cause the release of 125,000 shares from escrow and upon such release, 475,000 escrow shares shall be cancelled. The transaction is subject to regulatory approval.

(d) By Board resolution, the company has agreed that a major shareholder, at its discretion, may receive settlement of amounts owing from the company and advances to be made to the company from time to time, in whole or in part, by way of an option to acquire the company's shares at a per share price which is based on the weighted average price of Borealis shares for 1982, 1983 as long as such price shall not be below \$16 Canadian less allowable discounts, subject always to obtaining all necessary approvals from regulatory bodies involved in the administration and regulation of the company.

(e) By authorization of the company, the president, at his sole discretion, can authorize the issue of up to 1,000 shares per month to any individual as compensation for work done for or on behalf of the company.

BOREALIS EXPLORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 1984

6. Capital stock (continued)

- (f) By letter agreement dated March 1, 1983, one of the major shareholders of the company agreed to lend the company 200,000 shares of Borealis Exploration Limited for the purposes of raising or securing funds. The company had in turn lent the shares to another major shareholder controlled by the chief executive officer and managing director of the company for the purposes of raising or securing funds for the company. The agreement expired September 10, 1983. The company is obligated to return the 200,000 shares within the next fiscal year or issue an equivalent number of shares to the original lender. In the event that the shares are not returned by the borrowing shareholder, negotiations are being undertaken between the two major shareholders to remove the company from such obligation.

- (g) By letter agreement dated August 25, 1983, the company has offered to purchase certain royalty interest in the company's mining leases from United Canso Oil & Gas Ltd. for \$300,000. The \$300,000 will be payable in Borealis shares. This transaction is subject to approval by the appropriate regulatory bodies.

7. Economic Dependence

In order to finance capital expenditures, the company has incurred significant liabilities. As the company has not yet established a self-sustaining cash flow from operations, it is primarily dependent upon certain shareholders for financial support (see note 4.)

8. Related party transactions

During the year, the company had numerous financial transactions with the chief executive officer. These transactions consist of cash advances to the company, personal guarantees for some of the company's liabilities and repayment of some bank debts of the company. These transactions are fully described in other notes to the financial statements.

9. Contingent liabilities

- (a) A legal action has been instituted by a former consultant of the company. The plaintiff is claiming for unpaid consulting fees of approximately \$76,000 plus costs of litigation and overdue interest. The company has filed a counter-claim for general damages and for specific damages for non-performance in a timely manner. The outcome of the dispute, in the opinion of management is not yet determinable.

BOREALIS EXPLORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 1984

9. Contingent liabilities (continued)

- (b) The company had issued 22,093 shares for an amount of approximately \$579,941 to certain trade creditors to extinguish or settle some of the company's indebtedness to these creditors. The company has agreed to make up for any shortfall, if any, upon the creditors selling the shares to pay out the debt in full. Conversely, any excess funds available after sale of the shares shall serve as a credit to Borealis for future work to be done for Borealis. In the opinion of management, any shortfall or excess upon sale of the shares are not yet determinable. The chief executive officer of the company had also put up some personal shares of the company to some creditors for any shortfall mentioned above. During the year, 6,000 of these personal shares were sold for \$111,000. This amount has been included in note payable as referred to in note 4.

- (c) The company has two groups of prospecting permits. To maintain control of the permit areas, the company has an obligation to perform minimum amounts of work as required by the Canada Mining Regulations.

The company has posted letters of credit with the Government of Canada as security for performance and completion of the work requirements on the permits. The company must: by February 1, 1983 expend a minimum of \$56,989 on the first set of permits; and \$48,762 by February 1, 1986 on the second set of permits.

These letters of credit have been excluded from the accompanying financial statements as they will be cancelled by the Government upon completion of the work requirements. Management has estimated the total cost of fulfilling the requirements to be \$500,000. The letters of credit are guaranteed by a major shareholder.

- (d) The company is presently involved in two lawsuits with trade creditors. The amounts due have been recorded as liabilities of the company. The outcome of these disputes, in the opinion of management, is not yet determinable.

- (e) The company has agreed to pay any and all taxes which may be payable in connection with the surrender of the escrow shares mentioned in note 6(c) above. The amount of tax, if any, is not yet determinable.

10. Subsequent events

Subsequent to March 31, 1984, the Board of Directors has agreed to issue a three year floating debenture for a first charge on the company's mining properties, to a shareholder of the company. The debenture is to bear interest at 15% per annum, and will provide security on the note payable (see note 4).

11. Statutory information

The company has seven directors. 598 (8,220 in 1983) shares were issued, \$156,000 (\$44,900 in 1983) in cash was paid, for a total of \$167,960 (\$223,419 in 1983) as remuneration for services rendered by the directors and senior officers (including the five highest paid employees) of the company.